Progress Energy

June 27, 2008

The Honorable Charles Terreni
Chief Clerk/Administrative
Public Service Commission of South Carolina
P. O. Drawer 11649
Columbia, South North Carolina 29211

RE: Progress Energy Carolinas, Inc.'s Application for the Establishment of Procedures for DSM/EE Programs
SCPSC Docket No. ___________

Dear Mr. Terreni:

Enclosed for filing please find Progress Energy Carolinas, Inc.'s Application for the Establishment of Procedures for DSM/EE Programs.

Please do not hesitate to call me at (919) 546-6367 if you have questions regarding this filing.

Sincerely,

Len S. Anthony/mhm

Len S. Anthony
General Counsel-Progress Energy Carolinas, Inc.

LSA:mhm

Enclosure

cc: Mr. John Flitter (5 copies)

264516

Progress Energy Service Company, LLC
P.O. Box 1551
Raleigh, NC 27602

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. ______ -

In the Matter of

Progress Energy Carolinas, Inc.'s Application for the Establishment of Procedures to: Encourage Investment in Energy Efficient Technologies; Energy Conservation Programs; and Incentives and Cost Recovery for Such Programs	))))))	**PROGRESS ENERGY CAROLINAS, INC.'S APPLICATION FOR THE ESTABLISHMENT OF PROCEDURES FOR DSM/EE PROGRAMS**

Pursuant to S.C. Code Ann. § 58-37-20 and Public Service Commission of South Carolina ("the Commission") Rules 103-819, 103-820 and 103-823, Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. ("PEC") petitions the Commission to establish procedures that encourage PEC investment in cost effective energy efficient technologies and energy conservation programs and approve the establishment of an annual rider to allow recovery of all costs associated with such programs and the recovery of an appropriate incentive for investing in such programs. In support thereof, PEC shows the following:

1. PEC is a corporation duly organized and existing under the laws of the State of North Carolina. Its principal office is located at 411 Fayetteville Street, Post Office Box 1551, Raleigh, North Carolina 27602-1551. PEC is a public utility engaged in the business of developing, generating, transmitting, distributing, and selling electric power in North Carolina and South Carolina.

2. The attorney for PEC, to whom all communications and pleadings should be addressed are: Len S. Anthony, General Counsel-Carolinas, Progress Energy Carolinas, Inc., Post Office Box 1551, Raleigh, North Carolina 27602-1551, telephone: (919) 546-6367.

3. S. C. Code Ann. § 58-37-20 provides that the Commission may adopt procedures that encourage electrical utilities to invest in cost effective energy efficient technologies and energy conservation programs. The statute further provides that, if the Commission chooses to adopt such procedures, these procedures must:

(a) Provide incentives and cost recovery for electric utilities that invest in energy supply and end-use technologies that are cost effective, environmentally acceptable, and reduce energy consumption or demand;

(b) Allow electric utilities to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities;

(c) Establish rates and charges that ensure that the net income of an electrical utility after implementation of specific cost effective energy conservation measures is at least as high as the utility's net income would have been if the energy conservation measures had not been implemented.

4. PEC wishes to begin offering new demand-side management and energy efficiency ("DSM/EE") programs in South Carolina to encourage its customers to conserve and use electricity efficiently and wisely. Therefore, PEC requests that the Commission approve the procedures, attached to this Application as Exhibit No. 1, that will allow PEC to annually recover the costs incurred in offering DSM/EE programs and an appropriate incentive consistent with S.C. Code Ann. § 58-37-20.

5. The annual rider proposed by PEC will allow PEC to recover the following costs and incentives: (1) the actual costs incurred in providing these programs; (2) net lost revenues associated with these programs[1]; and (3) an incentive equal to 50% of the net present value of the net benefits associated with each such program, as calculated using the Utility Cost Test. Exhibit 2 to this Application contains a more detailed discussion of the calculation of the incentive.

6. The cost recovery and incentive rider proposed by PEC is entirely consistent with the requirements of S.C. Code Ann. § 58-37-20. The statute requires that the utility be allowed to recover its costs and obtain a reasonable rate of return on its investment. PEC is requesting that it be allowed to recover all of its costs incurred in offering the program, including a return on any capital expenditures made in furtherance of such programs. The statute further provides that the Commission is to establish rates that ensure that the net income of the utility after implementation of the DSM/EE programs is at least as high as the net income would have been if the DSM/EE programs had not been offered. By allowing PEC to recover its net lost revenues, this requirement of the statute will be met. Finally, the statute provides that the rate established by the Commission must be sufficient to make the utility's DSM/EE programs at least as financially attractive as construction of new generating facilities. By definition, investments in supply-side generating facilities are much more capital intensive than demand-side resources and therefore result in higher earnings for the utility, all other things being equal. By allowing PEC to recover 50% of the net present value of the net benefits associated with, as calculated using the Utility Cost Test, the DSM/EE programs offered, PEC will be allowed to recover at least a portion of the earnings foregone by investing in demand-side versus supply-side resources.

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[1] "Net lost revenues" means the revenue losses, net of marginal cost avoided at the time of the lost kilowatt hour sale or in the case of purchased power, in the applicable billing period, incurred by PEC as a result of a new DSM/EE program. Net lost revenues shall also be net of any increases in revenues resulting from any activity by PEC that causes a customer to increase demand or energy consumption.

7. PEC proposes that none of the costs of new demand-side management for energy efficiency measures be assigned to any large commercial customer[2] or industrial customer that notifies PEC that the customer at its own expense has implemented or, in accordance with stated, quantified goals, will implement alternative DSM/EE programs, and that the customer elects not to participate in PEC's DSM/EE programs. Any customer that elects not to participate in PEC's DSM/EE programs but subsequently elects to participate in any new DSM/EE program will lose the right to be exempt from payment of the annual rider for five years or the life of the program, whichever is longer. "Life of the program" means either the capitalization period over which PEC will amortize or depreciate the costs associated with the program or the anticipated period for the program to reach maximum penetration. PEC further proposes that the costs associated with new DSM/EE programs be allocated between PEC's North and South Carolina retail jurisdictions, with DSM-related costs allocated based on a one hour coincident peak demand and EE-related costs allocated based on energy sales.

WHEREFORE, PEC petitions the Commission to establish an annual DSM/EE Rider as described in this Application.

This 27th day of June, 2008.

PROGRESS ENERGY CAROLINAS, INC.

Len S. Anthony /mhm

Len S. Anthony, General Counsel
Post Office Box 1551, PEB 17A4
Raleigh, North Carolina 27602

[2] "Large commercial customers" means a customer that has annual energy usage of not less than 1,000,000 kwhs measured in the same manner as PEC measures energy for billing purposes.

EXHIBIT 1

PROCEDURE FOR RECOVERY OF COSTS AND INCENTIVES FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS

(a) Definitions.

(1) "DSM/EE rider" means a charge or rate established by the Commission annually to allow Progress Energy Carolinas, Inc. ("PEC") to recover all reasonable and prudent costs incurred in adopting and implementing new demand-side management and energy efficiency programs, as well as, if appropriate, utility incentives, including net lost revenues.

(2) "Large commercial customer" means any commercial customer that has an annual energy usage of not less than 1,000,000 kilowatt-hours (kWh), measured in the same manner PEC measures energy for billing purposes.

(3) "Rate period" means the period during which the DSM/EE rider will be in effect. This time period is July 1 through June 30.

(4) "Net lost revenues" means the revenue losses, net of marginal costs avoided at the time of the lost kilowatt-hour sale(s), or in the case of purchased power, in the applicable billing period, incurred by PEC as the result of a demand-side management or energy efficiency program. Net lost revenues shall also be net of any increases in revenues resulting from any activity by PEC that causes a customer to increase demand or energy consumption.

(5) "Test period" means the period April 1 through March 31.

(b) Recovery of Costs.

(1) Each year the Commission shall conduct a proceeding to establish an annual DSM/EE rider for PEC. The DSM/EE rider shall consist of a reasonable and appropriate estimate of the expenses and net lost revenues expected to be incurred by PEC, during the rate period, for the purpose of adopting and implementing new demand-side management and energy efficiency programs, as well as an appropriate utility incentive. The rider will be trued up each year to reflect the difference between the reasonable expenses prudently incurred by PEC, net lost revenues incurred and utility incentives based on realized results during the test period and the revenues that were actually realized during the test period under the DSM/EE rider then in effect. Expenses, net lost revenues and utility incentives approved for recovery shall be allocated between PEC's North and South Carolina retail jurisdictions consistent with the system benefits provided by the new demand-side management and energy efficiency programs and, within the South Carolina retail jurisdiction, shall be assigned to rate classes on the following methodology. For both jurisdictional and rate class allocation, DSM-related costs and incentives will be allocated based on one hour coincident peak

demand, and EE-related costs and incentives will be allocated based on energy sales.

(2) Any over- or under-collection of reasonable and prudently incurred costs shall include an amount of interest, at such rate as the Commission determines to be just and reasonable, not to exceed the maximum statutory rate.

(3) The burden of proof as to whether the costs were reasonably and prudently incurred shall be on PEC.

(4) PEC may implement deferral accounting for costs considered for recovery through the annual rider. The balance in the deferral account, net of deferred income taxes, may accrue a return at PEC's currently approved net-of-tax rate of return. The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. This return is not subject to compounding. However, deferral accounting of costs shall not affect the Commission's authority under this rule to determine whether the deferred costs may be recovered.

(c) Incentives.

(1) PEC will be allowed, in its annual filing, to recover net lost revenues, resulting from the implementation of DSM or EE programs. In addition PEC will be allowed to recover an incentive equal to fifty percent of the net present value of the net benefits of the DSM/EE programs as determined by the Utility Cost Test.

(2) PEC will bear the burden of proving its calculations of the incentives to be included in the annual rider, either through its measurement and verification reporting plan or through other relevant evidence.

(d) Special Provisions for Industrial or Large Commercial Customers.

(1) Any industrial customer or large commercial customer that notifies PEC that it has implemented or, in accordance with stated, quantifiable goals, will implement alternative demand-side management or energy efficiency programs may elect not to participate in PEC's demand-side management and energy efficiency programs. Any customer that elects this option will be exempt from the annual rider.

(2) At the time PEC files its application for the annual rider, it shall provide the Commission with a list of those industrial or large commercial customers that have opted out of participation in PEC's new demand-side management or energy efficiency program.

(3) Any customer that opts out but subsequently elects to participate in a demand-side management or energy efficiency program loses the right to be exempt from payment of the rider for five years or the life of the program, whichever is longer. For the purposes of this subsection, "life of the program" means either the capitalization period over which PEC will amortize or depreciate the costs associated with the program or the anticipated period for the program to reach

maximum penetration. Within 30 days of the customer's election, PEC shall notify the Commission of an industrial or large commercial customer that elects to participate in a DSM/EE program after having initially notified PEC that it declined to participate.

(e) Annual Proceeding.

(1) The Commission shall schedule an annual rider hearing to review the costs incurred by PEC in the adoption and implementation of demand-side management and energy efficiency programs during the test period, the revenues realized during the test period through the operation of the annual rider, and the costs expected to be incurred during the rate period and shall establish a DSM/EE rider designed to recover during the succeeding twelve months the DSM/EE costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery incurred during the test period.

(2) PEC shall file its application for recovery of costs and incentives on or before June 1 of each year.

(3) The DSM/EE rider will remain in effect for a fixed 12-month period following establishment and will continue as a rider to rates established in any intervening general rate case proceeding.

(f) Filing Requirements and Procedure.

(1) PEC shall submit to the Commission all of the following information and data in its application:

(i) Projected South Carolina retail monthly kWh sales for the rate period.

(ii) For each DSM/EE program for which cost recovery is requested:

a. total expenses expected to be incurred during the rate period in the aggregate and broken down by type of expenditure, per appropriate capacity, energy and program unit metric and the proposed jurisdictional allocation factors;

b. total costs that PEC expects to incur during the rate period as a direct result of the program in the aggregate and broken down by type of cost, per appropriate capacity, energy and program unit metric, and the proposed jurisdictional allocation factors, as well as any changes in the estimated future amounts since last filed with the Commission;

c. a description of the measurement and verification activities to be conducted during the rate period, including their estimated costs;

d. total expected summer and winter peak demand reduction per appropriate capacity, energy, and program unit metric and in the aggregate;

e. total expected energy reduction in the aggregate and per appropriate capacity, energy and program unit metric;

f. total expenses for the test period in the aggregate and broken down by type of expenditure, per appropriate capacity, energy and program unit metric and the proposed jurisdictional allocation factors;

g. total costs that PEC incurred for the test period as a direct result of the program in the aggregate and broken down by type of cost, per appropriate capacity, energy and program unit metric, and the proposed jurisdictional allocation factors, as well as any changes in the estimated future amounts since last filed with the Commission;

h. a description of, the results of, and the costs of all measurement and verification activities conducted in the test period;

i. total summer and winter peak demand reduction per appropriate capacity, energy, and program unit metric and in the aggregate, as well as any changes in estimated future amounts;

j. total energy reduction in the aggregate and per appropriate capacity, energy and program unit metric, as well as any changes in the estimated future amounts since last filed with the Commission;

k. a discussion of the findings and the results of the program or programs;

l. evaluations of event-based programs including the date, weather conditions, event trigger, number of customers notified and number of customers enrolled;

m. a comparison of impact estimates presented in the program application from the previous year, those used in reporting for previous program years, and an explanation of significant differences in the impacts reported and those previously found or used;

n. a detailed explanation of the calculation of incentives, the actual calculation of the proposed incentives, and the proposed method of providing for their recovery and true-up through the annual rider;

o. actual revenues produced by the DSM/EE rider during the test period and for all available months immediately preceding the rate period;

p. the requested DSM/EE rider and the basis for the rider; and

q. projected South Carolina retail monthly kWh sales for the rate period for all industrial and large commercial accounts, in the aggregate, that are not assessed the rider charges as provided in this rule.

(2) PEC will file the information described in this procedure, accompanied by workpapers and direct testimony and exhibits of expert witnesses supporting the information filed in this proceeding, and the rider proposed by PEC.

(3) Interested persons must file a petition to intervene at least 15 days prior to the date of the hearing. Petitions to intervene filed less than 15 days prior to the date of the hearing may be allowed in the discretion of the Commission for good cause shown.

(4) The Office of Regulatory Staff and other intervenors must file direct testimony and exhibits of expert witnesses at least 15 days prior to the hearing date. If a petition to intervene is filed less than 15 days prior to the hearing date, it shall be accompanied by any direct testimony and exhibits of expert witnesses that the intervenor intends to offer at the hearing.

(5) PEC may file rebuttal testimony and exhibits of expert witnesses no later than 5 days prior to the hearing date.

EXHIBIT 2

S.C. Code Ann. § 58-37-20 reflects the South Carolina General Assembly's goal of encouraging utilities to implement energy efficiency and demand-side management ("DSM/EE") as a means of assuring greater energy security and diversity.

PEC requests that the Commission establish an annual rider that will allow PEC to recover the following costs and incentives associated with its DSM/EE programs:

1) Its reasonable and prudent expenses incurred in developing and offering DSM/EE programs. These expenses include, but are not limited to, all capital costs, including cost of capital at the Commission's last authorized rate and depreciation expenses, administrative costs, implementation costs, incentive payments to program participants and operating costs.

2) The net lost revenues associated with any program. The recovery of net lost revenues simply keeps PEC whole. It does not provide a positive incentive to encourage the pursuit of DSM/EE programs.

3) An incentive equal to 50% of the net present value of the net benefits of DSM/EE program savings based upon the Utility Cost Test ("UCT"). The UCT is an industry standard test, which compares the costs incurred by a utility in offering a DSM/EE program to the benefits as measured by the costs avoided by the utility. Since the UCT looks at the cost to the utility and utilizes the traditional concept of least cost provisioning, use of the test will provide appropriate incentives to PEC but, at the same time, encourage the Company to pursue least cost alternatives.

The incentive amount would be recovered over a 10-year period. For DSM programs, PEC will determine an incentive per kW saved using the forecast upon which the cost/benefit tests are based. The incentive per kW will be applied to actual peak demand reductions achieved in each year, such that if PEC achieves the targeted demand reduction of the program, the company will receive 100% of the target incentive. If PEC achieves less kW of demand reduction than projected, the incentive will be proportionally less. If PEC achieves more kW of demand reduction than projected, the incentive will be proportionally more. The incentive will be collected through a charge per kWh.

For EE programs, PEC will use a similar methodology but will solve for a rate per MWh of energy reduction achieved, such that if the company achieves the targeted energy reduction of the program, the company will receive 100% of the target incentive. Again, if PEC achieves fewer MWh of reduction than expected, the incentive will be proportionally less. If PEC achieves more MWh of reduction than expected, the incentive will be proportionally more.

The incentive is linked to the primary goal of the program (either peak demand reduction or energy reduction), and is adjusted appropriately as the company achieves more or less of the targeted benefit.

This incentive will be included in PEC's annual cost recovery filings and will be allocated and recovered in the same way that the other costs associated with DSM and EE programs are allocated and recovered.